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ABSTRACT

The current condition of educational finance in Ontario and the factors influencing efforts at finance reform are examined in this report. Five key issues confronting school finance in Ontario are reviewed first: inequities caused by variations in district wealth; the failure of provincial support to keep pace with expenditures; the loss of efficiency due to the rapid rise in expenditures; the need to fund upper grades in Catholic separate schools; and the fiscal autonomy of school boards. Four options for financing education are examined next: adapting the current "mill rate equalization" grant plan to accommodate the Catholic schools; maintaining the current plan but with revised weighting of students; instituting a foundation grant plan with a variable foundation level; and adopting a resource cost model for funding on a program basis. The report then presents scenarios exploring how four different systems for organizing the schools would interact with each of the financing models in light of the key issues noted earlier. The organizational systems examined are structured with varying emphases on differences in students' language, religion, and grade level. The report concludes with a prediction about the combination of organizational structure and financing method most likely to be adopted. (PGD)

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FUNDING OPTIONS: ELEMENTARY AND SECONDARY EDUCATION*

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ABSTRACT

Five key issues confront school finance in Ontario: 1) inequities caused by the ability of school boards with high assessed valuation per pupil to raise more funds above the grant ceiling than can boards with low assessed valuation per pupil; 2) the fact provincial support for education has risen more slowly than per pupil expenditures; 3) the loss of efficiency in education as per pupil costs have increased faster than inflation; 4) the funding of grades 11 to 13 in Roman Catholic separate schools; and 5) the fiscal autonomy of school boards.

Four options are for financing education are discussed: 1) retain the current "mill rate equalization" grant plan, adapted to the requirements of a two-panel, elementary and secondary, Roman Catholic school system; 2) retain the basic structure of the mill rate equalization grant plan but weight students according to level and cost of program; 3) institute a foundation grant plan with a variable foundation level based on weighted students and a non-mandatory basic levy; and 4) institute a resource cost model (RCM) for funding on a program basis.

The acceptability of each model is seen to depend on how Ontario's schools are organized in the future and how well the five problems stated above are resolved. The four scenarios are described: 1) two-tier boards with lower tier boards set up on the basis of

religion and language rather than geography; 2) parallel public and Roman Catholic school boards, both offering full programs; 3) two systems, but with the public boards offering all programs and the Roman Catholic separate system offering primarily academic programs at the secondary level; and 4) a highly fragmented situation with a multitude of boards based on religion and language, and private schools funded by the province.

The first two scenarios are seen to pose the fewest problems as far as finance is concerned, though in the second scenario some action would have to be taken to compensate Catholic boards for their lack of commercial and industrial assessment. The latter two scenarios are seen to require a move towards program funding, with a resource cost model fully funded by the Province needed if the educational system were to become highly fragmented.

In conclusion, the author's expectations are given. These include a restricted Roman Catholic separate system, a foundation grant plan with non-mandatory basic levy for boards of below average wealth, spending limits on wealthy boards, and special grants to assist boards with below average commercial and industrial assessment.

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What choices does Ontario have in funding its elementary and secondary schools? What factors affect these choices, and what are the implications of the various options? These are the key questions addressed in this paper.

Discussion of funding options does not occur within a vacuum. In fact, five key issues or problems in the current mode of financing education in Ontario must be taken into account since it is likely that **available choices for funding will be judged by how well they resolve these issues:** (1) apparent inequities that have arisen as school boards, with vastly differing assessed values, have come to depend upon "over-ceiling" expenditures in order to provide the standard of education expected by their communities; (2) the level of provincial support for elementary and secondary education or, stated another way, the failure of the grant ceilings to increase as rapidly as school boards' expenditures; (3) the apparent loss of efficiency in education as per pupil expenditures have been

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rising at a rate faster than overall inflation; (4) the manner in which grades 11 through 13 will be funded for Roman Catholic separate school boards; and (5) the fiscal relations between the provincial government and school boards; i.e., the question of the autonomous power of school boards to levy taxes.

Clearly, these five issues are inter-related and progress towards resolving one of them may either forward or hinder progress in resolving the others. For example, raising the grant ceiling would address the second problem noted above, and would also help to reduce inequities, but at the cost of perhaps decreased efficiency.

The financial issues are not the only factors that must be considered in discussing funding options, however. A more fundamental question than **how** funding is to occur is the question of **what** is to be funded. The government's decision to fund grades 11 through 13 in the separate schools carries with it the implication of substantial restructuring of the Ontario school system. In the opinion of some, this restructuring will be more far-reaching than either the formation of county boards in 1969 or the formation of the Metropolitan Toronto School Board in the early 1950s. It should be recalled that these restructurings were in large part brought about by a desire to facilitate the provision of a higher uniform level of educational service across the province. Restructuring then, as now, was tied to financing of education.

A preeminent question, therefore, is how education will be structured in Ontario in 5 to 10 years. As yet, there is no definitive picture of what this structure may be. This uncertainty makes the discussion of funding options much more complicated since one must invent various pictures of how education might be organized. In the next section, four different "futures" for Ontario education will be described. In these, particular attention is paid to four matters: (1) Catholic and non-Catholic schools; (2) schools for francophones; (3) the future of grade 13 (i.e., length of study in secondary schools); and (4) private schools.

In a subsequent section, the relationship or impact of each of these possible structures on the five fiscal issues noted above will be discussed. It will be seen that under some structures certain financial issues cease to be of importance, while others rise in importance. At the same time, it may be seen that certain issues transcend all structures, and it is these issues that are most fundamental. Finally, various funding options will be discussed, options which resolve both fundamental financial issues that will remain regardless of the structure of education in Ontario, and issues which are specific to certain educational structures.

The Structure of Education - 1995

The funding of grades 11 to 13 in Ontario's Roman Catholic separate schools, along with possible funding of some or all of

the costs of education in private schools, makes it very likely that the structure of education in Ontario in, say, 1995 will be different from that which we experience today. Four possible scenarios are as follow.

(1) Two-tier school boards will be formed in which the upper tier would be composed of representatives of lower-tier boards, much as is in the case of the Metropolitan Toronto School Board today. However, these lower-tier boards would **not** be based on geographic areas, but on religious or other criteria. For example, there would be a non-secular, public lower-tier board, a Catholic lower-tier board, and possibly Jewish, Moslem, Evangelical Christian or francophone lower-tier boards. Certain services, such as transportation, business services, salary negotiation, audio-visual resources, and probably technical education would be centralized, while employment contracts would be with the lower-tier boards. In a slight variation of this, there might be several non-secular or Roman Catholic lower tier boards in a region, with their boundaries following municipal lines.

(2) School boards will remain much as they are now, except that Roman Catholic school boards will offer services that are **fully equivalent** to those of existing public school boards, and all Roman Catholic students would be assigned to these Catholic boards. That is, Roman Catholic school boards (the term "separate" being dropped since they are the equal of public boards) will offer a full range of technical, vocational, and commercial courses, and the salaries of their staff and their

class sizes will be comparable to those of the public boards. As well, the distinction between elementary and secondary panels as we now know them will be dissolved and the two merged, with Catholic students going to the Catholic schools for their entire school careers unless granted permission by their boards to attend the non-secular public system, should the latter choose to admit them. As well, there would be a Minister's Advisory Committee on Catholic Education and several Roman Catholic teachers' colleges.

(3) The public and the separate school systems would remain as they are, including the current distinction between the elementary and the secondary panels. Substantial numbers of Catholic elementary students would cross over to receive education at the public secondary schools, whether it be in academic, technical, or vocational programs, and others would spend their entire educational careers within the public system. In this view, the public system would still be, as it is today, the "full service" educational system while the Catholic system would be seen as having a more modest role, emphasizing an academic education at the secondary level. A slight variation on this scenario would, in fact, see a decline in the separate school system as the current "neo-conservative" era comes to an end and children opt increasingly for the more liberal public school system.

(4) There will be a high degree of fragmentation in the Ontario school system, with substantial public funds going to support private schools. As well, new separate school boards would be created for Anglican, Jewish, Evangelical Christian, and other

religious groups, while franco-ontarians would also receive school boards of their own outside of the Roman Catholic school system. The non-secular public system would be of modest size, serving only those not finding a "home" elsewhere or preferring to be educated in a heterogeneous setting.

Cutting across each of these futures are two scenarios in regards to secondary education and the fate of grade 13. In one view, nothing much changes, in that the majority of high school students who wish to complete all of the Ontario Academic Credits will do so in a five year secondary program. In effect, then, grade 13 remains. In the alternative view, the majority of students wishing to complete high school education will do so in 12 years; however, the increased competitiveness of the OACs together with the attraction of jobs (expected to be available due to a shortage of labour that will accompany the decline in number of young people entering the job market and an expected upturn in the economy in the late 1980s) will lead to an extremely high dropout rate.

The four possibilities outlined above for Ontario's schools are neither all possible views of the future nor are they equally likely. Each person might attach their own "personal probability" to each of them: to most individuals, one or more of the options will seem outlandish, whereas at least one will seem almost certain. However, in my view, all are quite possible given the history of education in Ontario, other Canadian provinces, and countries like the United Kingdom, Australia, New Zealand and

Ireland. By way of illustration, consider the following. A two-tier board currently exists in Metropolitan Toronto which operates much like the first structure described above; unified public boards in a number of Maritime provinces traditionally operate both non-secular and Roman Catholic schools, and there have been times in Canadian history that school boards serving various religious and ethnic groups have been created. In the 1930s, for a brief period, there was a Jewish School Commission in Montreal; in the 1950s an additional denominational board, for Pentecostal Assemblies, was added in Newfoundland; and school boards in New Brunswick and Nova Scotia have recently been re-aligned along language lines.

As far as the second scenario is concerned, in both Alberta, Quebec, and urban Saskatchewan, parallel Catholic and non-Catholic boards are in operation (though the non-Catholic boards in Quebec City and Montreal are Protestant rather than non-secular, at least in designation). The third possible structure reflects the situation similar to that which we know in Ontario today, while the fourth outcome, though least reflected in practice today, could evolve from policies that are in place elsewhere. Alberta, for example, gives quite generous funding to private schools, as do Quebec and Saskatchewan. British Columbia introduced funding of private schools only within the last decade. Perhaps more important, many expect that the Charter of Rights protection against religious discrimination would force governments to extend to all religious groups privileges that are provided to any one, constitutional guarantees excepted.

As for the final issue, concerned with future secondary education, the first outcome would, in effect, have things continue as they are, whereas the second would have students complete their education in the number of years they do in 8 of the other 9 provinces (Quebec being the exception), as well as all of the U.S. states. As well, retention rates in high schools have traditionally tracked the economy quite closely, with high retention rates during the 1930s when there were few job opportunities and sharply lower rates during the war years when many youth opted for the armed services. More recently, we have seen retention rates increase during the recession of the early 1980s, offsetting enrolment declines expected due to a smaller number of youth of high school age. It would seem, then, that retention rates can only remain high during the next 5 to 10 years if Canadian economy deteriorates significantly.

Educational Structure and Finance Issues

How would the financial issues outlined at the beginning of this paper be affected by the realization of each of the four scenarios outlined in the preceding section? To answer this question, each of the five issues raised will be discussed for each of the projections.

With a **two-tier** system, one would presumably direct all of the residential, commercial, and industrial assessment to the upper level school board, with that board allocating resources among the lower-tier boards. This would mean that the variation in assessed

valuation among school boards would decline, making it much easier for the provincial government, using the current grant plan, to assure a high degree of equity among the school boards without increasing the overall level of provincial participation. Instead, provincial funds could be directed at the boards most in need. There would probably be certain efficiencies with a two-tier board, in that many services would not be duplicated in two or more boards. Ideally, only one school board headquarters would be necessary, though the "edifice" complex of school boards might dominate their thinking and bring forth a multiplicity of school board offices. Under a two-tier system, then, there would be no need for a separation of assessment for Roman Catholic separate schools, which would receive full access to the wealth of the community. Presumably, the upper-tier board would allocate school buildings to one or another of its lower-tier boards so that school plant could be utilized efficiently and allocated fairly. Under this view, upper-tier boards would have considerable autonomy from the provincial government, but it is likely that their lower-tier boards would experience somewhat less autonomy than do the free standing public and separate boards that currently exist.

Under the second scenario, in which **two parallel systems** operate with equal ranges of services, the issues of equity, provincial participation, and efficiency, are all heightened in intensity. The relatively lower assessed valuation of Roman Catholic school boards, faced with offering a full secondary program, would result in under-funding of services. At the same time, pressure would

arise for still further increases in provincial grants to these schools in order for them to maintain a competitive position with the public boards. At the same time, the competition between the two boards might result in a situation of each trying to outdo the other, both offering services above that demanded by the average parent. In this situation, action would have to be taken by the provincial government to resolve these issues, perhaps by pooling assessment or by instituting some controls on expenditure or taxation levels. The latter option would be particularly attractive if the province were to increase its share of expenditure and if it wished to ensure that these funds went for tax relief and not for higher expenditures in the wealthier of the two systems. In both cases, public boards would experience losses of fiscal autonomy, although they and Roman Catholic boards would retain the power to decide how their funds ought to be spent.

In the third scenario, with **two systems existing but with the public system dominant**, one would find a situation parallel to that which currently exists, with the issues of similar magnitude. It would appear the current grant plan is one which cannot last, particularly with the funding for grades 11 to 13 in the separate schools. As far as autonomy is concerned, the two systems would maintain approximately the same degree of autonomy as they have now.

Finally, if a **fragmented educational system** were to develop with there being a multiplicity of smaller school systems, the issue of equity would become paramount. Indeed, it is difficult to see how

a fragmented system could exist using the current provincial grant plan. To divide property assessment among many boards would probably be impractical and would, at any rate, result in tremendous variation in assessed valuation among school boards. This situation would place additional pressure on the province to raise its rate of participation in funding education, and would probably reduce the overall efficiency of the system in that there would be more, smaller schools. In this case, the Roman Catholic separate school system would be one of many, one that might emerge as the largest school system in the province if the public system were eroded by a growth in private or other publicly operated school systems. As a result, a system of program funding, probably fully financed by the province, would become almost mandatory. In this case, the power of school boards would be severely eroded.

Funding Options

Several alternatives for the funding of education in Ontario exist but, as suggested in the preceding discussion, the selection of a particular alternative would depend on its effectiveness of resolving particular issues under particular conditions. Four alternative approaches seem worth considering. These will be sketched out, then an assessment made as to the conditions under which each would seem a reasonable choice.

Option I would be the retention of the present "mill rate equalization" grant plan, adapted to the requirements of a

two-panel, elementary and secondary, Roman Catholic separate school system.

Option II is to retain the basic structure of the mill rate equalization grant plan, but to abolish the separation of the elementary and secondary panels and to substitute a form of program weighting in which students in different grades or specializations would be given a different weighting. For example, the following weights might be used

K - 3	1.2	
4 - 6	1.0	
7 - 9	1.3	
10-12 or 13	1.4	in low cost courses
10-12 or 13	1.8	in high cost courses

Option III would be to substitute a foundation grant plan for the mill rate equalization grant plan, using weighted students in the manner that is currently used or as is described in Option II. A foundation grant plan, it might be noted, is only a relatively modest change from the mill rate equalization grant plan as it currently operates since the vast majority of school boards are now over the grant ceiling. In effect, the grant ceiling has become a <u>de facto</u> foundation level for most school boards.

Option IV would be to adopt program funding based upon a "resource cost model" in which all of the "inputs" necessary to offer a given level of service in a range of programs are fully costed. This option, in effect, would create model budgets for each school board, with each school board being bound by the total expenditure determined by the model but free to allocate funds as it sees fit. A variation on this option is to allow a school board to raise an additional amount from local resources should it choose to do so.

In what situations would each of the options appear appropriate? Option I, the present grant plan, would seem **appropriate only if two-tier school boards were formed.** In this case, the issues of equity and provincial participation would likely be resolved by the greater tax base of the upper tier board. At the same time, efficiency would be encouraged since there would be few boards with exceedingly high assessments per pupil. As well, since Roman Catholic schools would be funded out of the revenues of the upper tier board, there would be no need to separate Catholic ratepayers from others (though this could be continued for constitutional reasons if need be). Presumably, the entire matter of the fair funding of schools within a jurisdiction would be dealt with at the local level, just as is the case with the Metropolitan Toronto School Board and its six constituent boards. Clearly, there would be considerable local autonomy if this situation were to prevail.

The current grant plan would not seem to work as well were the other school board structures to come about. In all three other cases it would seem that the problem of equity would be as bad or

worse than it is now. In the case of two parallel boards (public and Catholic) with equal programs, the lack of assessment to spend beyond ceilings would clearly strain Catholic school boards. On the other hand, were Catholic school boards to accept a more modest model for their operation, a situation might prevail in which they were being "over-funded". This could occur if they offered only "low cost" secondary programs while receiving grants set at levels meant to fund a full range of programs.

Finally, the current grant plan could not be used to fund a highly fragmented system unless the province chose to provincialize the property tax and require no local contribution, in effect making the system into one of full provincial funding with no local leeway. Though current formulas could still be used, such a change would, in fact, be a radical one completely eliminating local fiscal autonomy, albeit dealing effectively with equity and efficiency.

The second option, which includes abolishing the distinction between the elementary and secondary panels and moving to **a system of students weighted according to grade and course**, would be most effective for dealing with the situation in which there was a **"full service" public board and a "limited service" separate school board.** This approach would assure there was a link between funding and program, but a link that allowed local autonomy. Such an approach, it should be noted, might provide an incentive for school boards to enrol pupils in high cost programs, suggesting that some sort of approval system operated by a provincial

authority might be necessary in order to control the size of these programs. In this case, local autonomy would be reduced.

The second funding option could also be used were two-tier boards to emerge, though it would seem unnecessary, as would be the case if there were equal public and Catholic boards. However, it would appear attractive if a more fragmented system were to emerge since it would link grants to programs.

A **foundation plan**, Option III, **would improve on the current grant plan in that the size of a board's grant would not be reduced if it chose to tax at a rate under the mill rate designated in the grant regulations**, as is currently the case. Thus, boards which now tax below this level and hence receive reduced grants would receive larger provincial grants. Combined with either the current or revised pupil weightings, this would appear to increase equity, though it does so by increasing grants to low spending boards (which are usually low wealth boards) rather than capping the expenditures of high wealth boards. Thus, it does little for efficiency. More will said about this option in the conclusion.

A **resource cost model** (RCM), Option IV, is an approach which favours efficiency and "vertical equity", i.e., the fair recognition of different levels of need. In it, the inputs (teacher costs, transportation costs, etc.) are supposed to be fully costed on a program by program basis. Thus, it could be used in any of the four scenarios outlined above, but would seem unnecessarily complex were two-tier boards or co-equal public and

separate boards to emerge, since in these cases it is fair to assume full ranges of programs will be offered by all school boards. However, an RCM would appear useful were separate boards to offer more restricted programs than the public boards or if a highly fragmented system were to emerge. Of course, this approach would limit local autonomy unless supplementary funds could be raised locally. In this latter case, equity problems would arise similar to those that are experienced under the mill rate equalization or foundation grant plans.

No comment has been made on the ties between funding and the evolution of grade 13. Since grants are calculated on a per pupil basis, there is already an incentive for schools to keep pupils enrolled. At the same time, it is notable that boards do not save much money when students drop out, since a lost student decreases average daily enrolment, thereby increasing a board's equalized assessed value per pupil, which in turn causes the local share to increase for all remaining pupils. A board would, in theory, save only the amount equal to their over-ceiling expenditures for a pupil that drops out. It would seem that some more direct incentive might be provided to a) encourage school boards to retain pupils (or, equivalently, to encourage students to stay in school) and b) to encourage students to complete their studies in twelve years (thus increasing the efficiency of the educational system). It may well be that "learning grants" ought to be paid to students to keep them in school and out of the part- or full-time job markets until they complete their studies, as they are to students from low income families in Quebec and Australia.

Conclusion

Recurring throughout the preceding discussion has been an emphasis on the trade-offs between efficiency, autonomy and equity. As new educational structures emerge, there will be shifts in the degree to which each of these objectives will be fulfilled. Current concerns about equity and efficiency suggest that some autonomy of school boards will be sacrificed and, under two of the scenarios, still further losses of autonomy are indicated as a closer tie is made between program and funding in order to achieve adequate equity and efficiency.

Yet, in terms of the overall effectiveness of the educational system and, to be frank, the welfare of the teaching force, it seems likely that events affecting the retention of secondary students and the length of time they take to complete their programs may be of equal importance to the school system. Whether students are in public, separate, or even private schools, teachers will be needed and learning will occur. It would seem that this issue cuts across other issues, and is one upon which all educators are likely to agree that there is a need for effective action.

My own expectations in regard to the future of Ontario schools and school funding are as follow:

1) public boards will remain as the only full service school boards, except in Metropolitan Toronto; Roman

Catholic separate school boards will tend to specialize in more academic programs and will either buy technical education from the public system or see substantial numbers of Catholic youth select the public system for their high school education;

2) funding will be given to a restricted number of private secondary schools; following the Saskatchewan model, only schools over a certain size and in existance for a certain period of time will receive funding;

3) the "mill rate equalization grant plan" will be replaced with a foundation grant plan. The foundation level will be determined according to a weighted pupil system similar to that which now exists for determining grant ceilings, but with greater weights for students in technical and vocational programs, and for boards with low income residents. The basic foundation level will be set at the the 50th percentile of 1985/86 expenditures and thereafter will be keyed to inflation. Boards with average or above average equalized assessed valuation per pupil will be required to levy the full basic levy set for the foundation program, while boards with below average wealth will be allowed to levy a lower rate (and therefore use part of the provincial grant for tax relief);

4) expenditure limits will be placed on boards spending more

than 20 percent above the foundation level. Eventually, no board will be allowed to spend more than 15 percent above its weighted foundation level; and

5) grants in lieu of commercial/industrial assessment will be introduced to assist boards with below average commercial/industrial (or seasonal dwelling) assessment. (Such grants existed in the 1960s when Ontario schools were funded using a foundation grant plan).

Why do I expect this outcome to the current deliberations? First, I believe that funding for secondary education in Roman Catholic separate school boards will be approved by the courts, with the proviso that other religious groups be treated equitably at the secondary level. Second, I do not think that the Province can afford to duplicate facilities for technical and vocational education. Even in Ireland, which has a multiple denominational system, technical and vocational education is offered by non-denominational government schools. Third, I think a foundation grant plan will be introduced in the form I have suggested since such a plan would provide more aid to low wealth boards than does the current plan should their ratepayers be unwilling to tax themselves at the level needed to get their maximum grant. As well, after all this fuss, something has to be changed. Fourth, I think that higher spending boards, which are also higher wealth boards, must be restricted in their expenditures to ensure the common wealth of society is not squandered -- and because it is impolitic to leave them untouched.

Finally, provincial grants to offset the inequalities in commercial and industrial assessment would be a highly visible response to a political and practical problem without the apparent need to take these resources from anyone else.

The money to fund all this will come from savings in provincial grants to public boards as a result of enrolment declines and the setting of a basic mill rate that is higher than that now used in the mill rate equalization grant plan -- which is to say it will come out of the pockets of ratepayers in school boards with above average equalized assessed value per pupil.